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DEPOSIT RECONCILIATIONS AT
DEFENSE FINANCE AND ACCOUNTING SERVICE
COLUMBUS CENTER DISBURSING STATIONS

Report No. 99-211

July 9, 1999

Office of the Inspector General
Department of Defense

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Acronyms

AUT	Analysis of Unmatched Transactions
DeCA	Defense Commissary Agency
DFAS	Defense Finance and Accounting Service



INSPECTOR GENERAL
DEPARTMENT OF DEFENSE
400 ARMY NAVY DRIVE
ARLINGTON, VIRGINIA 22202-2884

July 9, 1999

**MEMORANDUM FOR DIRECTOR, DEFENSE COMMISSARY AGENCY
DIRECTOR, DEFENSE FINANCE AND ACCOUNTING
SERVICE**

**SUBJECT: Audit Report on Deposit Reconciliations at Defense Finance and
Accounting Service Columbus Center Disbursing Stations
(Report No. 99-211)**

We are providing this report for information and use. The report is the first in a series of reports on reconciliations made by disbursing stations for the Fund Balance With Treasury account. We conducted the audit in support of our annual audits of the Fund Balance With Treasury account and the FY 1998 DoD Agency-Wide financial statements, as required by the Chief Financial Officers Act of 1990 and the Federal Financial Management Act of 1994. We considered management comments on a draft of this report when preparing the final report.

Comments on the draft of this report met the requirements of DoD Directive 7650.3 and left no unresolved issues. Therefore, no additional comments are required.

We appreciate the courtesies extended to the audit staff. Questions on the audit should be directed to Mr. Charles J. Richardson at (703) 604-9582 (DSN 664-9582) (crichardson@dodig.osd.mil) or Mr. Robert E. Benefiel, Jr., at (703) 604-9515 (DSN 664-9515) (rbenefiel@dodig.osd.mil). See Appendix B for the report distribution. The audit team members are listed inside the back cover.

A handwritten signature in black ink, reading "David K. Steensma".

David K. Steensma
Deputy Assistant Inspector General
for Auditing

Office of the Inspector General, DoD

Report No. 99-211
(Project No. 8FA-2021)

July 9, 1999

Deposit Reconciliations at Defense Finance and Accounting Service Columbus Center Disbursing Stations

Executive Summary

Introduction. This audit is one in a series of audits on the Fund Balance With Treasury account (an asset account) performed in response to the Chief Financial Officers Act of 1990, as amended by the Federal Financial Management Act of 1994. The report discusses reconciliations that DoD disbursing stations should conduct to accurately report deposit transactions affecting the Fund Balance With Treasury account. Subsequent reports will discuss reconciliations that DoD disbursing stations should conduct to accurately report interagency transfers and checks issued. Reconciling the Fund Balance With Treasury account is a DoD implementation strategy for auditable financial statements.

We reviewed four disbursing stations that provided data for the Fund Balance With Treasury account on the FY 1998 DoD Agency-Wide financial statements. All four disbursing stations were located at the Defense Finance and Accounting Service Columbus Center, Columbus, Ohio. During FY 1998, the four disbursing stations reported net disbursements to the U.S. Treasury totaling \$19.7 billion, mainly on behalf of the Defense Commissary Agency, the Defense Logistics Agency, and DoD contracts. The U.S. Treasury records the disbursement data and maintains the Fund Balance With Treasury accounts for DoD appropriations. The FY 1998 DoD Agency-Wide financial statements reported \$167.5 billion in the Fund Balance With Treasury asset account.

Objectives. The audit objective was to assess controls over disbursing and collection activities and monthly reporting to the U.S. Treasury. This report focused on the objective as it applied to deposits. We also reviewed the adequacy of the management control program as it applied to the audit objective.

Results. Three of the four disbursing stations at the Defense Finance and Accounting Service Columbus Center adequately reconciled and corrected unmatched deposits. However, disbursing station 6355 did not reconcile unmatched deposits on the "Analysis of Unmatched Transactions" report to supporting documentation at commissaries and banks. As a result, disbursing station 6355 accumulated 8,048 unmatched deposits, valued at \$113.4 million, that were not reconciled or corrected as of September 30, 1998. Automating the analysis and aging of the Analysis

of Unmatched Transactions report will reduce the number of reconciliations required for unmatched deposits and will improve the accuracy of the DoD Fund Balance With Treasury account. (Finding A).

Disbursing station 6355 did not report approximately \$34.0 million of Defense Commissary Agency deposits to the U.S. Treasury in the correct month on the SF 1219, "Statement of Accountability." The station's August 1998 Statement of Accountability omitted an estimated 1,735 deposits. The U.S. Treasury will continue to report unmatched deposits each month until a requirement is developed for the commissaries to send all deposit documentation by facsimile and a time standard is established to record deposit documentation in disbursing station records. Improved procedures will reduce the monthly amount of unmatched deposits requiring reconciliation and the resources needed to reconcile unmatched deposits (Finding B).

Summary of Recommendations. We recommend that the Director, Defense Finance and Accounting Service Columbus Center, initiate automated aging and analysis of the unmatched deposits shown on the "Analysis of Unmatched Transactions" report at disbursing station 6355; revise applicable written procedures and conduct training as needed; and revise written procedures to establish a time standard of no more than 3 working days for personnel at disbursing station 6355 to record deposit documentation. In addition, we recommend that the Director, Defense Commissary Agency, revise Defense Commissary Agency Directive 70-6, "Financial Procedures for Commissary Management Support Center," June 28, 1996, to state that Defense commissaries must send, by facsimile or electronically, all deposit documentation to disbursing station 6355 on the day of deposit, and retain the original source documents.

Management Comments. The Defense Finance and Accounting Service has implemented the recommendations by initiating automated aging and analysis of the unmatched deposits shown on the Analysis of Unmatched Transactions report, revising applicable written procedures, conducting training, and revising written procedures to establish a time standard for personnel at disbursing station 6355 to record deposit documentation. The Defense Commissary Agency concurred with the recommendation to revise Defense Commissary Agency Directive 70-6, "Financial Procedures for Commissary Management Support Center," to state that Defense commissaries must send all deposit documentation to disbursing station 6355 by facsimile on the day of deposit and retain the original source documents. A discussion of management comments is in the Findings section of the report, and the text of the comments is in the Management Comments section of the report.

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Introduction

This audit was conducted in support of the FY 1998 DoD Agency-Wide financial statements, as required by Public Law 101-576, the “Chief Financial Officers Act of 1990,” November 15, 1990, as amended by Public Law 103-356, the “Federal Financial Management Act of 1994,” October 13, 1994. This report discusses reconciliations that DoD disbursing stations should conduct to accurately report deposit transactions in the Fund Balance With Treasury account (an asset account).¹ Subsequent reports will discuss reconciliations that DoD disbursing stations should conduct to accurately report interagency transfers and checks issued.

DoD Implementation Strategy for Auditable Financial Statements. DoD developed an implementation strategy for auditable financial statements, in coordination with the Office of Management and Budget and the General Accounting Office, to obtain a favorable audit opinion on the DoD Agency-Wide financial statements. On November 19, 1998, the Principal Deputy Under Secretary of Defense (Comptroller) forwarded the implementation strategy to the DoD Components for implementation. Reconciling the Fund Balance With Treasury account is one of several goals of the implementation strategy.

Background

We reviewed four disbursing stations that provided data for the Fund Balance With Treasury account on the FY 1998 DoD Agency-Wide financial statements. The four stations, with disbursing station symbol numbers 6355, 6551, 8558, and 8565, were located at the Defense Finance and Accounting Service (DFAS) Columbus Center, Columbus, Ohio. During FY 1998, the four disbursing stations reported net disbursements² to the U.S. Treasury totaling \$19.7 billion. Disbursing station 6355 reported net disbursements of \$5.2 billion, mainly on behalf of the Defense Commissary Agency (DeCA) and the Defense Logistics Agency. The U.S. Treasury recorded the disbursement data in the Fund Balance With Treasury accounts based on the activity reported by DoD. The FY 1998 DoD Agency-Wide financial statements reported total assets of \$591.2 billion as of September 30, 1998, including \$167.5 billion in the Fund Balance With Treasury account.

¹ A Federal entity’s Fund Balance With Treasury account is the aggregate amount of funds in the entity’s accounts with the U.S. Treasury for which the entity is authorized to make expenditures and pay liabilities.

² Net disbursements represents the difference between a disbursing station’s disbursements and collections.

Statement of Accountability. DoD disbursements, collections, and adjustments are processed at approximately 969 disbursing stations at locations worldwide. These disbursing stations are authorized to prepare U.S. Treasury checks, to initiate interagency transfers, and to make deposits to U.S. Treasury accounts. Each disbursing station is required to prepare a monthly SF 1219, "Statement of Accountability," which reports information to the U.S. Treasury on checks issued, interagency transfers, and deposits.

Disbursing stations report net deposits on line 4.2, "Deposits Presented or Mailed to Bank," of the monthly Statement of Accountability. Net deposits represent the net value of disbursement and collection transactions processed through CA\$HLINK,³ a banking system. During FY 1998, the four disbursing stations reported net deposits totaling a negative \$12.3 billion. Disbursing station 6355 reported net deposits to the U.S. Treasury totaling a negative \$263 million.⁴

Within DoD, Statements of Accountability are combined at three DFAS Centers; the DFAS Denver Center, Denver, Colorado; the DFAS Cleveland Center, Cleveland, Ohio; and the DFAS Indianapolis Center, Indianapolis, Indiana. Each DFAS Center electronically submits a combined Statement of Accountability to the U.S. Treasury using a Government telecommunications network. Disbursing stations 6355 and 6551 submit their information for the Statement of Accountability to the DFAS Indianapolis Center, and disbursing stations 8558 and 8565 submit their information to the DFAS Cleveland Center.

Statement of Transactions and the Fund Balance With Treasury Account. Disbursing stations also prepare a monthly SF 1220, "Statement of Transactions," which reports disbursements and collections for each appropriation. The Statements of Transactions are combined at the DFAS Centers and submitted to the U.S. Treasury. The U.S. Treasury records the disbursement and collection data from the Statement of Transactions in the Fund Balance With Treasury account maintained for each appropriation in the Standard Treasury Accounting and Reporting System. Each month, the U.S. Treasury reports the outstanding balance in the Fund Balance With Treasury account to each Government agency on Financial Management Service Form 6653, "Undisbursed Appropriation Account Ledger." The U.S. Treasury sends the Undisbursed Appropriation Account Ledger to each agency on microfiche and through a Government telecommunications network.

Reconciliations. Disbursing stations conduct monthly reconciliations between the Statement of Accountability and the Statement of Transactions, and should also reconcile discrepancies in checks issued and differences in interagency

³ CA\$HLINK is a worldwide reporting system showing disbursement and collection transactions reported by Federal Reserve District Banks and commercial bank depositories. The transactions include electronic funds transfers and FedWire disbursements; cash, check, credit card, and food stamp collections; and bank-initiated debits and credits.

⁴ The negative \$263 million in net deposits represents the net value of disbursements (\$6,183 million) and collections (\$5,920 million) processed through the CA\$HLINK system.

transfers and deposits. Disbursing stations also provide the information that the DFAS Centers need to conduct two other major reconciliations each month for their disbursing stations. The reconciliations compare the Statement of Accountability to the Statement of Transactions, and the Statement of Transactions to the Fund Balance With Treasury account reported on the Undisbursed Appropriation Account Ledger. The DFAS Centers also reconcile the Fund Balance With Treasury account reported on the Undisbursed Appropriation Account Ledger to budgetary data on the SF 133, "Report on Budget Execution."

The U.S. Treasury reports deposit differences to disbursing stations monthly through the DFAS Centers on Financial Management Service Form 6652, "Statement of Differences, Deposit Transactions" (the Statement of Differences). The U.S. Treasury identifies deposit differences by comparing net deposits reported monthly on the Statement of Accountability with control totals derived from the CASHLINK system data in the Standard Treasury Accounting and Reporting System. Deposit differences occur when disbursing stations do not report all deposits to the U.S. Treasury in the correct month on the Statement of Accountability, or the U.S. Treasury has not received from the Federal Reserve District Banks all transactions that have been processed by the disbursing stations.

Objectives

The audit objective was to assess controls over disbursing and collection activities and monthly reporting to the U.S. Treasury. This report focused on the objective as it applied to deposits. We also reviewed the adequacy of the management control program as it applied to the audit objective. Appendix A discusses the audit scope and methodology, the statistical sampling methodology, and the review of the management control program, and lists prior audits related to the objectives.

A. Reconciling Unmatched Deposits

Unmatched deposits were adequately reconciled and corrected for three of the four DFAS Columbus Center disbursing stations. However, disbursing station 6355 did not reconcile unmatched deposits on the "Analysis of Unmatched Transactions" (AUT) report to supporting documentation at commissaries and banks. This occurred because disbursing station personnel did not properly use the AUT and the DFAS Columbus Center disbursing directorate had not automated the aging and analysis of the unmatched deposits on the AUT report.

As a result, disbursing station 6355 had accumulated 8,048 unmatched deposits valued at \$113.4 million that were not reconciled or corrected as of September 30, 1998. Automating the aging and analysis of the AUT report will reduce the number of reconciliations required for unmatched deposits and will improve the accuracy of the DoD Fund Balance With Treasury account.

Procedures for Reconciling Deposits

The "Treasury Financial Manual," volume I, part 2, chapter 3100, "Instructions for Disbursing Officers' Reports," February 6, 1997, requires agencies to reconcile deposits reported to the U.S. Treasury by disbursing stations on the Statement of Accountability with deposits reported to the U.S. Treasury through the CA\$HLINK system, and to identify any unmatched deposits. The "Treasury Financial Manual" and DoD Regulation 7000.14-R, the "DoD Financial Management Regulation," volume 5, "Disbursing Policy and Procedures," May 9, 1996, require disbursing stations to reconcile and correct any unmatched deposits.

The U.S. Treasury provides a list of CA\$HLINK system deposits to each DFAS Center, including the DFAS Indianapolis Center. The DFAS Indianapolis Center matches the CA\$HLINK deposits to the deposits reported by each of its disbursing stations, including disbursing station 6355, and lists on the AUT report the deposits that do not match. The DFAS Indianapolis Center prepares a separate AUT report for each disbursing station and transmits the AUT report monthly to each disbursing station for reconciliation. The AUT report lists unmatched deposits for each month and is the only report available to disbursing stations that individually identifies unmatched deposits requiring reconciliation. The amount of unmatched deposits for each month shown on the AUT report agrees with the amount of deposit differences reported by the U.S. Treasury for the month on the Statement of Differences.

DFAS Indianapolis Center Regulation 37-1, "Finance and Accounting Policy Implementation," September 18, 1995, requires each disbursing station to review the AUT report and to initiate corrections. DFAS Columbus Center SC-1108, "Internal Operating Manual," August 29, 1997, requires disbursing stations to reconcile unmatched deposits on the AUT report to supporting documentation at commissaries and banks.

Revised DoD Guidance. DoD issued Interim Change Advisory 5-98, effective August 4, 1998, to revise DoD Regulation 7000.14-R, volume 5. The guidance revises chapter 5, "Deposit and Transfer of Public Funds," by adding a requirement for disbursing officers to consider all unmatched deposits not reconciled after 6 months as a loss or overage of funds, as prescribed in chapter 6, "Irregularities in Disbursing Officer Accounts."

When a disbursing officer discovers an irregularity in a disbursing account, chapter 6 requires the disbursing officer to verify whether all transactions have been properly posted. If the irregularity is not resolved, the disbursing officer must report the irregularity to the commander and request that the commander direct an immediate investigation to confirm that an irregularity has occurred. Disbursing officers report lost funds on the Statement of Accountability, line 7.3, "Losses of Funds."

Reconciliations by Disbursing Stations

At three of the four DFAS Columbus Center disbursing stations we reviewed, unmatched deposits were adequately reconciled and corrected. However, disbursing station 6355 did not reconcile unmatched deposits on the AUT report to supporting documentation at commissaries and banks. This occurred because disbursing station personnel did not use the AUT report properly. In addition, the DFAS Columbus Center disbursing directorate had not automated the analyses of the unmatched deposits for use on AUT reports with large numbers of monthly transactions.

Disbursing station personnel did not review the microfiche or automated copies of the AUT reports sent by the DFAS Indianapolis Center for reconciliation from December 1997 through September 1998. They explained that the microfiche AUT was too large for manual review.

For example, the September 30, 1998, AUT included 8,048 unmatched deposits (\$113.4 million) dating back to July 1995 that were applicable to disbursing station 6355. The station's deposit differences accounted for 57.9 percent of the 13,902 unmatched deposit transactions and 30.6 percent of the \$371.0 million in unmatched deposits applicable to the disbursing stations that sent their Statement of Accountability data to the DFAS Indianapolis Center.

Because the DFAS Columbus Center disbursing directorate had not automated the AUT analysis, disbursing personnel were unable to use computerized techniques to efficiently analyze the automated AUT report. Automated analyses were needed to update the unmatched deposit data on the AUT report by eliminating deposits that had been matched since the effective date of the report, and to sort and prioritize the remaining unmatched deposits for reconciliation by disbursing station personnel.

Automated Analyses

In October 1998, the DFAS Columbus Center disbursing directorate began developing a computer program to automate the analysis and the aging of the unmatched deposits shown on the AUT report. The disbursing directorate needed the computer program to implement the new DoD requirement to consider all unmatched deposits not reconciled after 6 months as losses or overages. The computer program would update the unmatched deposit data shown on the AUT report and age the remaining unmatched deposits by month, for manual reconciliation to supporting documents at commissaries and banks.

We requested that the disbursing directorate apply the computer program to the unmatched deposits on the September 30, 1998, AUT report for disbursing station 6355. Our objective was to identify unmatched deposits that would have been subject to consideration as losses or overages based on the new DoD requirement. The disbursing directorate was unable to age the unmatched deposits as of September 30, 1998, because the necessary data were no longer available when the computer program was ready for use.

On January 12, 1999, the disbursing directorate applied the computer program to the unmatched deposits shown on the November 30, 1998, AUT report. The results showed that on January 12, 1999, disbursing station 6355 had 641 unmatched deposits (absolute value of \$9.2 million) 180 or more days old that had not been reconciled. Subsequently, disbursing station personnel began investigating the unmatched deposits as required by DoD Regulation 7000.14-R. Personnel were obtaining supporting documentation at commissaries and banks to verify whether the transactions had been properly posted.

Procedures and Training

The disbursing directorate had not begun automating the aging and analysis of the AUT report. To automate these processes, the disbursing directorate needs to revise DFAS Columbus Center SC-1108 to establish written procedures for disbursing station personnel to use in reconciling and correcting all unmatched deposits that are identified by the automated program. The disbursing directorate also needs to train disbursing station personnel to use the results obtained from the automated program.

Conclusion

Automating the analysis and aging of the AUT report will reduce the number of reconciliations required for unmatched deposits and will improve the accuracy of the DoD Fund Balance With Treasury account. Reconciliations will be further reduced when DeCA and the DFAS Columbus Center implement the corrective actions recommended in Finding B.

Recommendations and Management Comments

A. We recommend that the Director, Defense Finance and Accounting Service Columbus Center:

1. Initiate automated aging and analysis of the unmatched deposits shown on the "Analysis of Unmatched Transactions" report at disbursing station 6355.

2. Revise DFAS Columbus Center SC-1108, "Internal Operating Manual," August 29, 1997, to establish written procedures for disbursing station personnel to follow in reconciling unmatched deposits identified by automated analysis.

3. Train disbursing station personnel to use the results of the automated analysis in conjunction with the written procedures.

Management Comments. The Director for Accounting, DFAS, concurred, stating that the disbursing directorate developed and implemented an automated database to assist in working on the AUT report at disbursing station 6355. For Recommendation A.2., he stated that the DFAS Columbus Center has developed a draft desk procedure for processing AUT reports using the automated database and plans to issue the final desk procedure after the automated database is fully implemented. For Recommendation A.3., he stated that the DFAS Columbus Center has provided training in the use of the automated database to the personnel who work on the AUT report and that additional training will be provided when the database is fully implemented. The complete text of the comments is in the Management Comments section of this report.

B. Reporting Deposits on the Statement of Accountability

Disbursing station 6355 did not report 1,735 DeCA deposits to the U.S. Treasury in the correct month on the Statement of Accountability. This occurred because:

- Defense commissaries did not send deposit documentation to disbursing station 6355 by facsimile. DeCA procedures did not specifically require commissary personnel to do so.
- Disbursing station 6355 did not promptly record deposit documentation in the automated financial system. DFAS Columbus Center procedures did not establish time standards for disbursing station 6355 to record the deposit documentation.

As a result, the U.S. Treasury reported an estimated \$34.0 million in unmatched deposits for reconciliation and will continue to report those unmatched deposits each month until a requirement is developed for sending all documentation by facsimile and a time standard is established for recording documentation in disbursing station records. Improved procedures will reduce the unmatched deposits requiring reconciliation (discussed in Finding A), reduce the resources required to reconcile unmatched deposits, and improve the accuracy of the DoD Fund Balance With Treasury account.

Procedures for Processing Deposits

DeCA Directive 70-6, "Financial Procedures for Commissary Management Support Center," chapter 1, "Report of Deposits," June 28, 1996, requires commissaries to make daily deposits of commissary sales receipts with a local bank, a Federal Reserve District Bank, or a local DoD finance and accounting office. The Directive requires commissaries to send legible copies of deposit tickets and cash collection vouchers to Disbursing Station 6355 by facsimile, and discusses steps for ensuring legibility. The Directive states that commissaries should mail the original deposit documentation to the disbursing station.

Defense commissaries are required to deposit sales proceeds either on the date of sale or the next working day. The Directive requires commissaries to send deposit documentation either upon receipt of the confirmed deposit ticket from the bank, or by the working day following the date of sale, whichever comes first.

DFAS Columbus Center Desk Procedure 2302, "DD Form 707 and SF 215," February 1996, establishes detailed procedures for recording deposits, but includes no time standards for recording deposit transactions from the commissaries in the automated financial system. The DFAS Columbus Center

supervisor responsible for recording deposits at disbursing station 6355 told us that station personnel should record all deposit transactions in the automated financial system within 3 working days after receiving it.

Processing Deposits by Commissaries and Disbursing Stations

Disbursing station 6355 receives documentation on collections deposited from 235 Defense commissaries at locations worldwide. The documentation includes SF 215, "Deposit Ticket," DD 707, "Report of Deposit," and DD 1131, "Cash Collection Voucher." Station personnel use accounting codes shown on the documentation to manually record the deposit transactions in the automated financial system (Standard Financial System Redesigned Subsystem 1). The system generates accounting vouchers to document the deposits recorded, and accumulates deposit data to report to the U.S. Treasury on the disbursing station's Statement of Accountability.

Statistical Sample of Accounting Vouchers. We reviewed DeCA commissary deposits processed in September 1998 because documentation for other FY 1998 months was stored in a warehouse and not readily available. During September 1998, disbursing station 6355 recorded 8,770 accounting vouchers that included documentation on 14,751 deposits. We used a statistical sample of the accounting vouchers to review the time required for commissaries to send deposit documentation to disbursing station 6355 and for disbursing station 6355 to record the documentation. Additional details of the statistical methods and results are discussed in Appendix A.

Facsimile or Mailed Documentation. Defense commissaries did not send deposit documentation to disbursing station 6355 by facsimile. Some commissaries sent documentation by regular mail instead. For the 331 deposits in our sample, 88 commissaries submitted documentation to disbursing station 6355. Of the 88 commissaries, 39 sent deposit documentation by mail instead of facsimile.

Mailed Documentation. Because disbursing station personnel did not manually record receipt dates for mailed deposit documentation, we were unable to determine when the station received documentation sent by mail and whether the documentation was recorded promptly. Instead, we measured the total time between the date of deposit and the date the station recorded the deposit. We compared the total deposit-to-recording time for mailed documentation with the total deposit-to-recording time for facsimile documentation.

Mailed documentation required an average of 11 more working days to record than facsimile documentation, as calculated from the 331 commissary deposits sampled. The time between the date of deposit and the date the station recorded the deposit averaged 6 working days for facsimile documentation and 17 working days for mailed documentation.

Facsimile Documentation. Disbursing station 6355 did not promptly record facsimile documentation in the automated financial system. Based on the sample results for the facsimile documentation received, we

estimated that personnel at Disbursing Station 6355 took more than 3 working days to record 3,471 deposits (23.5 percent) of the 14,751 deposits made in September 1998 after receiving the facsimile documentation.

Impact on Statement of Accountability and U.S. Treasury Statement of Differences for Disbursing Station 6355. The commissaries' use of regular mail to send deposit documentation and delays by disbursing station 6355 in recording facsimile documentation prevented disbursing station 6355 from reporting all DeCA deposits to the U.S. Treasury in the correct month on the Statement of Accountability. Based on the sample results, we projected that 1,735 deposits reported on the September 1998 Statement of Accountability should have been reported on the August 1998 Statement of Accountability. Additional details of the projection are discussed in Appendix A.

As a result, the U.S. Treasury unnecessarily reported an estimated \$34.0 million in unmatched deposits for reconciliation on the August 1998 Statement of Differences. The U.S. Treasury will continue to unnecessarily report unmatched deposits on the Statement of Differences each month until a requirement is developed for sending all deposit documentation by facsimile and a time standard is established for recording deposit documentation in disbursing station records. Improved procedures will reduce the unmatched deposits requiring reconciliation and the resources needed to reconcile unmatched deposits, and will improve the accuracy of the DoD Fund Balance With Treasury account.

Management Actions

On August 31, 1998, representatives of DeCA and Disbursing Station 6355 met to discuss DFAS concerns regarding delayed receipt and nonreceipt of financial information from Defense commissaries. DFAS noted that some commissaries were forwarding deposit documentation by mail to disbursing station 6355 once each week. As a result of those discussions, on October 28, 1998, the Chief Financial Officer, DeCA, issued a memorandum to the directors of the DeCA regions, identifying the specific documents that commissaries must forward to the disbursing station. However, the memorandum did not require commissaries to send the documentation by facsimile.

Conclusion

DeCA should revise DeCA Directive 70-6 to require commissaries to retain the original source documents and to eliminate the requirement for commissaries to send the source documents by regular mail to disbursing station 6355. If commissaries retain the source documents, this should reduce the use of regular mail and increase the use of facsimiles to send deposit documentation. In addition, the action would reduce paperwork at disbursing station 6355, and the original documents would be available for review at the commissaries.

Management Comments on the Findings and Audit Response

Management Comments on the Accuracy of the Fund Balance With Treasury Account. The Director for Accounting, DFAS, stated that as long as DFAS Columbus Center balances the Statement of Accountability and the Statement of Transactions, the timing differences described in this report do not affect the Fund Balance With Treasury account. The Statement of Transactions is the source document that affects the Fund Balance With Treasury account.

Audit Response. We agree that transactions reported on the Statement of Transactions affect the Fund Balance With Treasury amount reported in U.S. Treasury records. However, balancing the Statement of Accountability and the Statement of Transactions is not the sole solution. The DoD implementation strategy for the Fund Balance With Treasury account contains a more comprehensive list of DoD actions required to report the fund balance shown in the DoD Fund Balance With Treasury general ledger account and obtain a favorable audit opinion on the DoD Agency-Wide financial statements. The actions include adjusting the DoD Fund Balance With Treasury general ledger account to capture any previously unrecorded amounts and working with the U.S. Treasury to resolve unreconciled differences.

Deposit differences reported on the Statement of Differences have an adverse affect on the amount reported for the Fund Balance With Treasury account. For example, deposits made during the accounting period that were recorded in U.S. Treasury records but not recorded in DoD disbursing records are not reported on the Statement of Transactions, and therefore are not reflected in the DoD Fund Balance With Treasury account. In addition, deposits made during the accounting period that were recorded in the disbursing station records but not in the U.S. Treasury records will be treated by DoD as a loss of funds and eliminated from the DoD Fund Balance With Treasury account.

Recommendations and Management Comments

B.1. We recommend that the Director, Defense Commissary Agency, revise Defense Commissary Agency Directive 70-6, "Financial Procedures for Commissary Management Support Center," June 28, 1996, to state specifically that Defense commissaries must send all deposit documentation to disbursing station 6355 by facsimile or electronically on the day of deposit and retain the original source documents.

Management Comments. DeCA concurred, stating that DeCA will revise Directive 70-6, "Financial Procedures for Commissary Management Support Center," to direct Defense commissaries to send all deposit documentation to disbursing station 6355 by facsimile on the day of deposit and retain the original source documents. The complete text of the comments is in the Management Comments section of this report.

B.2. We recommend that the Director, Defense Finance and Accounting Service Columbus Center, revise desk procedure 2302, "DD Form 707 and SF 215," to establish a time standard of no more than 3 working days for personnel at disbursing station 6355 to record deposit documentation.

Management Comments. The Director for Accounting, DFAS, concurred, stating that the DFAS Columbus Center revised desk procedure 2302, "DD Form 707 and SF 215," to include a time standard of 2 days for personnel at disbursing station 6355 to record deposit documentation. The complete text of the comments is in the Management Comments section of this report.

Appendix A. Audit Process

Scope and Methodology

We reviewed custodial records reflecting fiscal accountability for the four disbursing stations, which reported net disbursements of \$19.7 billion and net deposits totaling a negative \$12.3 billion for FY 1998. We compared net deposits reported on disbursing station records to net deposits reported on the Statements of Accountability and Statements of Differences issued monthly by the U.S. Treasury for FY 1998. Specifically, we reviewed the December 1997 and January 1998 Statements of Differences for deposits, which reported net deposits totaling a negative \$2.3 billion. We judgmentally selected transactions in registers supporting net deposits reported on the Statements of Accountability and traced the transactions to supporting source documents at the disbursing stations.

In addition, we examined the reconciliation of deposits, including the reconciliation of unmatched deposits to supporting documentation at disbursing stations, agencies, and banks. We focused on the use of the AUT reports sent by the DFAS Indianapolis Center to disbursing station 6355 because disbursing stations 8558 and 8565 completely reconciled their unmatched deposits and disbursing station 6551 had relatively small amounts of unmatched deposits that remained unreconciled. We analyzed requirements in the "Treasury Financial Manual" and DoD Regulation 7000.14-R for reconciling unmatched deposits. In addition, we reviewed disbursing station procedures and interviewed operating personnel about the reconciliation process for unmatched deposits and Statements of Differences.

We examined deposit processing at disbursing station 6355, including the time required for commissaries to send deposit documentation to the disbursing station and for disbursing station 6355 to record the documentation in the automated financial system. We judgmentally selected September 1998 because source documents were available for reviewing the timeliness of deposit processing.

We selected a statistical sample of 197 accounting vouchers (\$12.1 million) from a universe of 8,770 accounting vouchers (\$502.0 million) recorded by disbursing station 6355 during September 1998. The statistical sample included documentation on 408 deposits, and the universe included documentation on 14,751 deposits. Of the 408 deposits, 331 deposits (\$10.0 million) were made by commissaries. Defense commissaries sent documentation on the 331 deposits to the disbursing station by mail (86 deposits) and facsimile (245 deposits).

Commissaries' Use of Regular Mail. By identifying deposits made on or before August 21, 1998, we identified the deposits that the station could have recorded in August 1998 from the sample deposits for which documentation was mailed to the station. Deposits made on or before August 21, 1998, could have been recorded in August 1998 if commissaries had sent the documentation to the station by facsimile. We selected August 21, 1998, based on the average time,

as calculated from the sample results, between the date of deposit and the date the station recorded the deposit when a commissary sent documentation to the station by facsimile (6 working days).

Recording of Facsimile Documentation by Disbursing Station. By identifying deposit documentation sent by facsimile on or before August 26, 1998, we identified the deposits that the disbursing station could have recorded in August 1998 from the sample deposits for which documentation was sent by facsimile to the station. Deposit documentation sent by facsimile on or before August 26, 1998, could have been recorded in August 1998 if the station had recorded the documentation within 3 working days of receipt. A detailed discussion of the statistical sampling methodology and results is provided in this appendix.

Use of Computer-Processed Data. We relied on computer-processed data from the Standard Financial System Redesign Subsystem 1 to identify deposits that disbursing station 6355 recorded during September 1998. Although we did not perform a formal reliability assessment of the computer-processed data, we determined that deposits reported to the U.S. Treasury on the Statement of Accountability agreed with deposits in the computer-processed data. We did not find errors that would preclude use of the computer-processed data to meet the audit objectives or that would change the conclusions in the report.

Use of Technical Assistance. We obtained technical assistance on statistical sampling from the Quantitative Methods Division of the Audit Followup and Technical Support Directorate, Office of the Assistant Inspector General for Auditing, DoD.

DoD-wide Corporate-Level Government Performance and Results Act Goals. In response to the Government Performance Results Act, the Department of Defense has established 6 DoD-wide corporate-level performance objectives and 14 goals for meeting these objectives. This report pertains to achievement of the following objective and goal.

Objective: Fundamentally reengineer the Department and achieve a 21st century infrastructure. **Goal:** Reduce costs while maintaining required military capabilities across all DoD mission areas. (DoD-6)

DoD Functional Area Reform Goals. Most major DoD functional areas have also established performance improvement reform objectives and goals. This report pertains to achievement of the following financial management functional area objectives and goals.

Objective: Reengineer DoD business practices. **Goal:** Improve data standardization of finance and accounting data items. (FM-4.4)

Objective: Strengthen internal controls. **Goal:** Improve compliance with the Federal Managers' Financial Integrity Act. (FM-5.3)

General Accounting Office High-Risk Area. The General Accounting Office has identified several high-risk areas in the Department of Defense. This report provides coverage of the Defense Financial Management high-risk area.

Audit Type, Dates, and Standards. We performed this financial-related audit from June 1998 through March 1999 in accordance with auditing standards issued by the Comptroller General of the United States, as implemented by the Inspector General, DoD. We included tests of management controls considered necessary.

Contacts During the Audit. We visited or contacted individuals and organizations within DoD and at the Department of the Treasury, Hyattsville, Maryland. Further details are available on request.

Statistical Sampling Methodology

Purpose of Sampling. The audit objective was to determine the timeliness of deposit processing, including the time required for commissaries to send deposit documentation to disbursing station 6355 and the time required for disbursing station 6355 to record the documentation in the automated financial system during September 1998. The purpose of the sampling plan was to analyze the delay that resulted in reporting DeCA deposits to the U.S. Treasury in the incorrect month on the Statement of Accountability. We analyzed delays caused by the commissaries' use of regular mail instead of facsimile and late recording by disbursing station 6355. The analysis and statistical projections are based on estimates of:

- the number of deposits recorded by disbursing station 6355 more than 3 working days after receiving the facsimile documentation.
- the number of deposits that could have been reported in the previous month (August 1998) as determined from the recording date, based on the facsimile deposits that took more than 3 working days from transmitting to recording and the mailed deposits that took more than 6 working days from deposit to recording.
- the dollar value of the deposits that could have been reported in August 1998.

Sampling Plan. Disbursing station 6355 recorded 8,770 accounting vouchers during September 1998, which included documentation on 14,751 deposits. We designed the sampling plan with an estimated precision of plus or minus 5 percent at the 90-percent confidence level by using the results of vouchers for December 31, 1997. We employed the cluster sampling plan with unequal cluster sizes as the sampling design for this audit. We used 8,770 vouchers as the cluster population and randomly selected a sample of 197 vouchers from the population.

Statistical Projections. The results of the sample of 197 vouchers included 408 deposits. By using the sample results, we calculated statistical projections for September 1998 for the number of deposits recorded by disbursing station 6355 more than 3 working days after receiving the facsimile documentation, and for the number of deposits and dollar value of deposits that

could have been reported in August 1998. The values in the following table represent statistical projections over the universe (September 1998 deposits) at the 90-percent confidence interval.

Statistical Projections for Disbursing Station 6355 Deposits, September 1998			
	<u>90-Percent Confidence Interval</u>		
	<u>Lower Bound</u>	<u>Point Estimate</u>	<u>Upper Bound</u>
Number of deposits recorded by disbursing station 6355 more than 3 working days after receiving facsimile documentation	1,565	3,471	5,377
Number of facsimile and mailed deposits that could have been reported in August 1998	775	1,735	2,695
Dollar value of facsimile and mailed deposits that could have been reported in August 1998	\$88,506	\$33,986,304	\$67,884,102

Confidence Interval Statement. We are 90-percent confident that between 1,565 deposits and 5,377 deposits were recorded more than 3 working days after the receipt of facsimiles, and that 3,471 deposits is the best unbiased point estimator from the population universe of 14,751 deposits. We are 90-percent confident that between 775 deposits and 2,695 deposits could have been reported on the August 1998 Statement of Accountability, and that 1,735 deposits is the best unbiased point estimator from the population universe of 14,751 deposits. We are 90-percent confident that between \$88,506 and \$67,884,102 in deposits could have been reported on the August 1998 Statement of Accountability, and that \$33,986,304 is the best unbiased point estimator from the population universe of \$502.0 million.

Management Control Program

DoD Directive 5010.38, "Management Control Program," August 26, 1996, requires DoD organizations to implement a comprehensive system of management controls that provides reasonable assurance that programs are operating as intended and to evaluate the adequacy of the controls.

Scope of Review of the Management Control Program. We reviewed DeCA controls over the submission of deposit documentation to disbursing station 6355. In addition, we reviewed controls at disbursing station 6355 over recording deposit documentation and reconciling unmatched deposits to

supporting documentation at commissaries and banks. Because we did not identify a material weakness, we did not assess the DeCA or DFAS Columbus Center management's self-evaluation applicable to those controls.

Adequacy of Management Controls. The controls we reviewed at DeCA and disbursing station 6355 were adequate in that we identified no material management control weaknesses.

Summary of Prior Coverage

Inspector General, DoD

Report No. 98-158, "Internal Controls and Compliance With Laws and Regulations for the Defense Commissary Agency Financial Statements for FY 1997," June 17, 1998.

Army Audit Agency

Report No. AA 99-115, "Army's Principal Financial Statements for Fiscal Year 1998, Centralized Disbursing, Defense Finance and Accounting Service Indianapolis Center," January 27, 1999.

DFAS Columbus Center, Office of Internal Review

Report No. 97-A-670-UA-003, "The DFAS-Wide Audit of the Disbursing Office Deposit Reconciliation Process," January 28, 1998.

Appendix B. Report Distribution

Office of the Secretary of Defense

Under Secretary of Defense (Comptroller)
Deputy Chief Financial Officer
Deputy Comptroller (Program/Budget)
Director, Defense Logistics Studies Information Exchange

Department of the Army

Auditor General, Department of the Army

Department of the Navy

Assistant Secretary of the Navy (Financial Management and Comptroller)
Auditor General, Department of the Navy

Department of the Air Force

Assistant Secretary of the Air Force (Financial Management and Comptroller)
Auditor General, Department of the Air Force

Other Defense Organizations

Director, Defense Commissary Agency
Director, Defense Contract Audit Agency
Director, Defense Finance and Accounting Service
Director, Defense Finance and Accounting Service Columbus Center
Director, Defense Logistics Agency

Non-Defense Federal Organizations and Individuals

Office of Management and Budget
General Accounting Office
National Security and International Affairs Division
Technical Information Center

Congressional Committees and Subcommittees, Chairman and Ranking Minority Member

Senate Committee on Appropriations
Senate Subcommittee on Defense, Committee on Appropriations
Senate Committee on Armed Services
Senate Committee on Governmental Affairs
House Committee on Appropriations
House Subcommittee on Defense, Committee on Appropriations
House Committee on Armed Services
House Committee on Government Reform
House Subcommittee on Government Management, Information, and Technology,
Committee on Government Reform
House Subcommittee on National Security, Veterans Affairs, and International
Relations, Committee on Government Reform

Defense Finance and Accounting Service Comments



DFAS-HQ/ASF

DEFENSE FINANCE AND ACCOUNTING SERVICE


1931 JEFFERSON DAVIS HIGHWAY
ARLINGTON, VA 22240-5291

MAY 24 1999

MEMORANDUM FOR DIRECTOR, FINANCE AND ACCOUNTING DIRECTORATE,
OFFICE OF THE INSPECTOR GENERAL, DEPARTMENT OF
DEFENSE

SUBJECT: Audit Report on Deposit Reconciliations at Defense Finance and Accounting
Service Columbus Center Disbursing Stations (Project No. 8FA-2021)

Our response to the subject audit is attached. The primary point of contact (POC) is
Mr. Wayne Ebaugh, (703) 607-2857 or DSN 327-2857, and the secondary POC is Mr. Mike
Bryant, (703) 607-1562 or DSN 327-1562.


Edward A. Harris
Director for Accounting

Attachment:
As stated

cc:
DFAS-HQ/PO
DFAS-CO/EI
DoDIG

**DFAS Comments on DoD Inspector General Draft Audit Report
"Deposit Reconciliations at Defense Finance and Accounting Service Columbus Center
Disbursing Stations" (Project No. 8FA-2021)**

General Comments

The Defense Finance and Accounting Service (DFAS) believes the recommendations in the report will help DFAS Columbus to improve the reconciliation of and reduce the timing differences between deposits reported to Treasury by disbursing stations on the Statement of Accountability with deposits reported through the CASHLINK system. However, as long as DFAS Columbus balances the SF1219 and the DD1329, the differences (timing) reported by the DODIG in the draft report do not affect the Fund Balance with Treasury (FBWT). The source document that affects the FBWT is the DD1329.

Responses to Recommendations

Recommendation A: We recommend that the Director, Defense Finance and Accounting Service-Columbus Center (DFAS-CO):

Recommendation A.1: Initiate automated aging and analysis of the unmatched deposits shown on the "Analysis of Unmatched Transactions" report at Disbursing Station 6355.

DFAS Management Comments: Concur. The Disbursing Office developed a database to assist in working the "Analysis of Unmatched Transactions" report (AUT) in November 1998. We began using this database in December 1998 for Disbursing Station Symbol Numbers (DSSNs) 6355 and 6551. We have refined the database and implemented changes to our processing procedures. We fully implemented the other nine DSSNs on April 15, 1999.

The database will allow us to track changes and corrections so that we can aggressively pursue actions to reconcile the AUT. The database provides historical records of transactions, the ability to conduct trend analysis for problem transactions, and provides reports of problems. Reports on aging transactions and identified problem sites are sent to the Headquarters of the serviced agencies for corrective actions.

Completion Date: April 15, 1999.

Recommendation A.2: Revise DFAS-CO SC-1108, "Internal Operating Manual", August 29, 1997, to establish written procedures for disbursing station personnel to follow in reconciling unmatched deposits identified by automated analysis.

DFAS Management Comments: Concur. We have developed a draft desk procedure for processing AUTs using the automated database. We are in the process of refining the draft procedure. We expect to have a final desk procedure in place after the automated database is fully implemented and tested by all DFAS-CO DSSNs.

Estimated Completion Date: August 31, 1999.

Recommendation A.3: Train disbursing station personnel to use the results of the automated analysis in conjunction with the written procedures.

DFAS Management Comments: Concur. We provided training for using the automated database to the personnel who work the AUT. Once we have refined and fully implemented the automated database, additional training will be provided.

Estimated Completion Date: September 30, 1999.

Recommendation B.2: We recommend that the Director, DFAS-CO, revise Desk Procedure 2302, "DD Form 707 and SF 215," to establish a time standard of no more than 3 working days for Disbursing Station 6355 personnel to record deposit documentation.

DFAS Management Comments: Concur. We have reduced the recording to two days for DD Form 707 and SF 215 deposit documentation. We have incorporated this standard into Desk Procedure 2302.

Completion Date: May 1, 1999.

Defense Commissary Agency Comments



REPLY TO
ATTENTION OF

DEFENSE COMMISSARY AGENCY
HEADQUARTERS
1999 E AVENUE
PORT LEE, VIRGINIA 22061-1800

IR

MAY 10 1999

MEMORANDUM FOR INSPECTOR GENERAL, FINANCE AND ACCOUNTING
DIRECTORATE, 400 ARMY NAVY DRIVE, ARLINGTON, VA
22202-2884

SUBJECT: Audit Report on Deposit Reconciliations at Defense
Finance and Accounting Service Columbus Center
Disbursing Stations (Project No. 8FA-2021)

Reference: DoDIG Memorandum, March 25, 1999, SAB.

Attached is the DeCA reply to the recommendations provided
in subject report. If you have any questions, please contact Mr.
Ben Mikell at (804) 734-8103.


CROSBY H. JOHNSON

Executive Director for Support

Attachment:
As Stated

DEFENSE COMMISSARY AGENCY REPLY

**SUBJECT: Audit Report on Deposit Reconciliations at Defense
Finance and Accounting Service Columbus Center
Disbursing Stations (Project No. 8FA-2021)**

RECOMMENDATION B.1. We recommend that the Director, Defense Commissary Agency, revise Defense Commissary Agency Directive 70-6, "Financial Procedures for Commissary Management Support Center," June 28, 1996, to state specifically that Defense commissaries must send all deposit documentation to Disbursing Station 6355 by facsimile or electronically on the day of deposit and retain the original source document.

DeCA REPLY. CONCUR. On February 25, 1999, regions were directed to have commissaries telefax copies of their deposit documentation directly to the DFAS-CO disbursing office on the day of deposit and to retain original documentation at the store level. Directing guidance is attached. Defense Commissary Agency Directive 70-6 will be updated by June 30, 1999 to incorporate these procedures.

Audit Team Members

The Finance and Accounting Directorate, Office of the Assistant Inspector General for Auditing, DoD, produced this report. Personnel of the Office of the Inspector General, DoD, who contributed to the report are listed below.

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